

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

FINANCIAL STATEMENTS

AS OF JUNE 30, 2014

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Staten Island Mental Health Society, Inc.

We have audited the accompanying financial statements of the Staten Island Mental Health Society, Inc. (the "Society") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Staten Island Mental Health Society, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Society will continue as a going concern. As discussed in Note 14 to the financial statements, the Society has suffered recurring significant reductions in revenues and has a net deficiency in unrestricted net assets (program and available for operations) that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.


NERAL & COMPANY, PA
Certified Public Accountants

Wall, New Jersey
February 19, 2015

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,592,768	\$ 1,858,980
Investments at fair value (Note 4)	1,909,991	1,671,573
Program service receivables, less allowance for uncollectible accounts of \$1,565,000 (2014) and \$1,248,000 (2013)	700,357	559,212
Grants receivable	993,340	573,631
Other receivable	11,600	3,750
Security deposit	33,021	33,021
Other assets	138,469	170,201
Property, plant and equipment, net (Note 5)	<u>7,813,661</u>	<u>8,005,803</u>
 Total assets	 <u>\$ 13,193,207</u>	 <u>\$ 12,876,171</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses (Note 6)	\$ 2,127,097	\$ 2,197,015
Accounts payable OMH COPS/CSP (Note 7)	6,212,182	5,038,458
Liability for pension benefits (Note 13)	1,031,100	2,350,896
Deferred income	<u>559,451</u>	<u>326,057</u>
 Total liabilities	 <u>9,929,830</u>	 <u>9,912,426</u>
 Commitments and contingencies (Note 14)		
 Net assets:		
Unrestricted:		
Auxiliary (Note 8)	56,552	51,778
Program	(6,740,224)	(6,325,693)
Available for operations	(978,330)	(1,440,974)
Net investment in plant	<u>10,780,707</u>	<u>10,535,536</u>
 Total unrestricted	 3,118,705	 2,820,647
Temporarily restricted (Note 8)	134,672	133,098
Permanently restricted (Note 8)	<u>10,000</u>	<u>10,000</u>
 Total net assets	 <u>3,263,377</u>	 <u>2,963,745</u>
 Total liabilities and net assets	 <u>\$ 13,193,207</u>	 <u>\$ 12,876,171</u>

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:							
Public support:							
Grants from government agencies	\$ 8,135,831	\$ -	\$ -	\$ 8,135,831	\$ 6,719,801	\$ -	\$ 6,719,801
Private grants	979,740			979,740	1,173,434		1,173,434
Contributions	870,487	1,574		872,061	1,195,811	3,408	1,199,219
Sales of donated merchandise	54,906			54,906	59,611		59,611
Total public support	10,040,964	1,574	-	10,042,538	9,148,657	3,408	9,152,065
Revenues:							
Program service fees	7,212,983			7,212,983	8,701,654		8,701,654
Investment income	604,238			604,238	315,806		315,806
Other income	82,241			82,241	37,967		37,967
Total revenue	7,899,462	-	-	7,899,462	9,055,427	-	9,055,427
Net assets released from restrictions					9,056	(9,056)	-
Total public support and revenues	17,940,426	1,574	-	17,942,000	18,213,140	(5,648)	18,207,492
Expenses:							
Program services	17,672,916	-	-	17,672,916	18,529,479	-	18,529,479
Supporting services:							
Management and general	895,387			895,387	566,010		566,010
Fund raising	393,861			393,861	579,100		579,100
Total supporting services	1,289,248	-	-	1,289,248	1,145,110	-	1,145,110
Total expenses	18,962,164	-	-	18,962,164	19,674,589	-	19,674,589
Change in net assets before effect of adoption of ASC Topic 715	(1,021,738)	1,574	-	(1,020,164)	(1,461,449)	(5,648)	(1,467,097)
Effect of adoption of recognition provisions of ASC Topic 715	(1,319,796)	-	-	(1,319,796)	(364,655)	-	(364,655)
Change in net assets	298,058	1,574	-	299,632	(1,096,794)	(5,648)	(1,102,442)
Net assets at beginning of year	2,820,647	133,098	10,000	2,963,745	3,917,441	138,746	4,066,187
Net assets at end of year	\$ 3,118,705	\$ 134,672	\$ 10,000	\$ 3,263,377	\$ 2,820,647	\$ 133,098	\$ 2,963,745

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013					
	Supporting Service		Management and General		Supporting Service		Management and General			
	Fund Raising	Total	Program Services	Total	Fund Raising	Total	Program Services	Total		
Salaries	\$ 456,833	\$ 117,292	\$ 574,125	\$ 9,107,595	\$ 9,681,720	\$ 250,547	\$ 309,247	\$ 559,794	\$ 10,169,059	\$ 10,728,853
Employee benefits (including pension and health insurance benefits)	110,551	21,305	131,856	2,321,529	2,453,385	72,889	62,219	135,108	3,021,072	3,156,180
Payroll taxes	35,196	8,349	43,545	706,148	749,693	18,105	19,948	38,053	793,367	831,420
Total salaries and related expenses	602,580	146,946	749,526	12,135,272	12,884,798	341,541	391,414	732,955	13,983,498	14,716,453
Professional fees	91,793	7,163	98,956	639,457	738,413	88,159	12,981	101,140	592,251	693,391
Food	16,455	3,548	20,003	201,544	221,547	21,784	5,246	27,030	180,388	207,418
Equipment and furnishings	-	-	-	242,350	242,350	4,693	150	4,843	86,315	91,158
Depreciation and amortization	-	-	-	273,115	273,115	-	-	-	470,535	470,535
Supplies	30,368	7,246	37,614	391,370	428,984	19,810	7,064	26,874	330,234	357,108
Rent (Note 9)	17,368	85,821	103,189	379,259	482,448	-	57,967	57,967	413,857	471,824
Repairs and maintenance	28,236	3,813	32,049	406,857	438,906	12,544	14	12,558	238,947	251,505
Patient and participant transportation	50	-	50	147,450	147,500	10	11	21	178,665	178,686
Telephone	11,723	2,104	13,827	169,968	183,795	661	661	1,322	176,163	177,485
Insurance	8,312	283	8,595	137,281	145,876	6,940	128	7,068	129,444	136,512
Conferences, meetings and dues	32,697	-	32,697	69,106	101,803	33,302	-	33,302	61,638	94,940
Systems training	3,326	-	3,326	43,915	47,241	-	-	-	79,271	79,271
Travel	2,588	77	2,665	44,679	47,344	2,302	626	2,928	33,459	36,387
Special events and fundraising	-	88,036	88,036	-	88,036	-	83,758	83,758	-	83,758
In-kind (Note 12)	8,023	-	8,023	257,131	265,154	-	-	-	263,571	263,571
Field trips	-	-	-	19,369	19,369	-	-	-	17,702	17,702
Advertising	4,273	5,018	9,291	37,905	47,196	4,718	4,099	8,817	11,772	20,589
Utilities	2,371	7,112	9,483	231,699	241,182	1,041	3,124	4,165	239,700	243,865
Printing	519	3,641	4,160	9,870	14,030	703	5,625	6,328	13,991	20,319
Equipment rental	2,118	408	2,526	32,487	35,013	2,064	340	2,404	32,795	35,199
Kaboom expenses	-	24,720	24,720	-	24,720	-	-	-	-	-
Other expenses (Children's Theatre)	-	-	-	34,197	34,197	-	-	-	32,314	32,314
Subgrantee expense	-	-	-	163,704	163,704	-	-	-	-	-
Wraparound needs	-	-	-	17,517	17,517	-	-	-	33,613	33,613
Miscellaneous	32,587	7,925	40,512	85,163	125,675	25,738	5,892	31,630	69,181	100,811
Bad debt expense	-	-	-	1,502,251	1,502,251	-	-	-	860,175	860,175
Total expenses	\$ 292,807	\$ 246,915	\$ 539,722	\$ 5,537,644	\$ 6,077,366	\$ 224,469	\$ 187,686	\$ 412,155	\$ 4,545,981	\$ 4,958,136
Percentage to total expenses	4.72%	2.08%	6.80%	93.20%	100.00%	2.88%	2.94%	5.82%	94.18%	100.00%

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 299,632	\$ (1,102,442)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	273,115	470,535
Net realized and unrealized (gains) and losses on investments	(572,631)	(279,837)
Change in allowance for doubtful accounts	316,817	839,671
Change in liability for pension benefits	(1,319,797)	(364,656)
(Increase) decrease in assets:		
Accounts and other receivables	(457,962)	(347,740)
Grants receivable	(419,709)	(380,114)
Other receivable	(7,850)	626,545
Security deposit	-	(429)
Other assets	31,732	25,551
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(69,917)	(199,052)
Accounts payable OMH COPS/CSP	1,173,724	(43,000)
Deferred income	233,394	210,383
	<u>(519,452)</u>	<u>(544,585)</u>
Cash flows from investing activities:		
Purchase of investments	(1,773,059)	(1,871,511)
Proceeds from sale of investments	2,107,272	1,893,158
Additions to leasehold improvements	(80,973)	(32,708)
	<u>253,240</u>	<u>(11,061)</u>
Net increase (decrease) in cash and cash equivalents	(266,212)	(555,646)
Cash and cash equivalents at beginning of year	<u>1,858,980</u>	<u>2,414,626</u>
Cash and cash equivalents at end of year	<u>\$ 1,592,768</u>	<u>\$ 1,858,980</u>

Supplemental disclosure of cash flow information:

Cash paid during the year for:		
Unrelated business income	\$ 4,000	\$ -

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - ORGANIZATION

The Staten Island Mental Health Society, Inc. (the "Society") is a not-for-profit organization founded in 1895. The Society's mission is to diagnose and treat emotional, behavioral, organic, and developmental problems; to create and support programs and environments that reduce the risk of disability and advance the optimal development of children; to increase the Society's knowledge of the causes and treatments of mental illness and developmental impairment; and to promote public awareness of, and support for, the value and availability of the Society's services.

The Society provides comprehensive mental health, early childhood and related services to Staten Island children and their families. Services are provided to children and young adults who are emotionally or behaviorally challenged, developmentally or learning disabled, neurologically impaired, dependent on alcohol or drugs, and/or economically disadvantaged.

These financial statements represent the combined activities of the various programs administered by the Society as well as the various volunteer groups organized to raise money on the Society's behalf (See Note 8 and 12).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and reporting practices of the Society conform to accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

Basis of accounting

The accompanying financial statements were prepared by using the accrual method of accounting, under which revenues are recognized when earned and expenses and liabilities are recognized when incurred.

Basis of presentation

Financial statement presentation reflects the adoption and recommendations as required by the Accounting Standards Codification. Under the Codification, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

Unrestricted net assets

Unrestricted net assets represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions (including contracts with government agencies, unrestricted contributions (including board designated contributions), or restricted contributions whose restrictions have expired.

Temporarily restricted net assets

Temporarily restricted net assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted net assets are reclassified to unrestricted as their time and purpose requirements are met.

Permanently restricted net assets

Permanently restricted net assets represent resources that must be maintained permanently. Like temporarily restricted net assets, permanent restrictions may be imposed only by a donor. However, permanently restricted net assets generally do not get reclassified, since, by definition, their restrictions never expire.

Revenues

Revenues include program service fees which represent the estimated net realizable amount from clients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted contributions, received and expended in the same period are reflected as unrestricted contributions in the accompanying financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets including estimated uncollectibles and allowances for accounts receivable from services to clients, and liabilities, including estimated payables to third-party payors, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The allowance for doubtful accounts and the estimated payable to third-party payors, among other accounts, require the significant use of estimates. Actual results could differ from those estimates.

Cash and cash equivalents

For the purpose of the statements of financial position and the statements of cash flows, cash and cash equivalents consist of cash on hand, in banks, and interest-bearing deposits. Management believes that the Society is not exposed to any significant credit risk on cash and cash equivalents.

Investments

At times throughout the year, unrestricted general funds and the investment in plant fund may consist of United States Treasury obligations and stocks. They are carried at fair value and any investment income (including realized and unrealized gains or losses on investment, interest and dividends) is reported in the statement of activities as increases or decreases in unrestricted net assets.

Donated securities (stocks) are recorded at fair market value at the date of gift. The Society reports gifts of goods and equipment as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used.

Program service accounts receivables

Program service accounts receivables are recorded at established rates net of contractual and other allowances and do not bear interest. The allowance for uncollectible accounts is the Society's best estimate of the amount of losses which could result on the Society's accounts receivable from patients, insurance companies and others. The Society reviews its allowance for uncollectible accounts periodically and determines the estimated amount for the allowance based on management's assessment of historical and expected collections, business economic conditions and other collection indicators. Account balances are charged off against the allowance when the potential for recovery is considered remote.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants

The Society annually receives a number of grants and contracts with certain federal, state, city and private organizations to render services. The funds received under these grants and contracts are generally designated to cover current operating costs for specific programs. Revenue related to the majority of these programs is recognized as related expenses are incurred. Grants receivable and deferred income are recorded when a difference in payments received and expenses incurred vary.

Capital expenditures

In accordance with contracts with various governmental funding sources, purchases of furniture and equipment are expensed in the year of acquisition. The respective funding sources have title to all furniture and equipment purchased with governmental funding. The buildings, which are owned by the Society, are carried at cost and are depreciated using the straight-line method over their estimated useful lives ranging from twenty to forty years. Leasehold improvements consist of costs associated with modernization at the Pouch Center, Day Treatment Center North and St. Mark's Place which are being amortized over the shorter of the life of the improvement or the length of the lease. Furniture purchased for the Pouch Center, as part of the modernization incurred, are being depreciated over their estimated useful lives of seven years.

Concentrations of credit risk

The Society maintains cash balances at several financial institutions. Aggregated account balances at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Occasionally, during the year, certain balances exceeded that limit.

In a prior year, the Society entered into an agreement with Victory State Bank, its primary account holder, where the bank grants to the Society a lien upon and or a security interest in Federal National Mortgage Association CMO's sufficient to cover 110% of the aggregate amount of all funds on deposit in excess of the \$250,000 FDIC limit, as security for all deposits for the Society in excess of the \$250,000.

Reclassification

Certain amounts in the comparative totals for 2013 have been reclassified to conform with the 2014 presentation. These reclassifications have no effect on net assets or the operating results from the prior year.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - INCOME TAXES

The Society is exempt from federal income tax under Section 501(a) as described in Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Society's tax-exempt purpose would be subject to taxation as unrelated business income. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The financial statements, however, do include unrelated business income tax expense relating to revenue that was earned from sublease agreements entered into during the current year that do not meet the Society's exempt purpose. The amount for the period ended June 30, 2014 was approx. \$4,000.

As required by the Accounting Standards Codification, the Society adopted the recognition requirements for uncertain income tax positions as required by accounting principles generally accepted in the United States of America, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

The Society has analyzed tax positions taken for filing with the Internal Revenue Service and New York State where it operates. The Society believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Society's financial condition, results of operations or cash flows. Accordingly, the Society has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2014. The Society believes it is no longer subject to income tax examination for years prior to 2011.

NOTE 4 - INVESTMENTS & FAIR VALUE MEASUREMENT

The Society's investments are reported at fair value in the accompanying statement of financial position and maintained by Fiduciary Trust Company. These investments serve as collateral for a line of credit with Fiduciary Trust Company as discussed in Note 14.

Investments consist of the following:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity securities	\$ <u>1,550,456</u>	\$ <u>1,909,991</u>	\$ <u>1,318,772</u>	\$ <u>1,671,573</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS & FAIR VALUE MEASUREMENT (Continued)

Investment income consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 31,611	\$ 34,228
Realized gains (losses)	279,480	151,999
Unrealized gains (losses)	<u>293,148</u>	<u>129,579</u>
	<u>\$ 604,239</u>	<u>\$ 315,806</u>

In accordance with their investment policy, the Society maintains a diversified investment portfolio with no significant concentrations in any particular industry segment or sector.

At June 30, 2014, any unrealized losses on investments are not deemed to be other than temporary impairments based on the expectation of recovery in value.

The Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. When those prices are not available, Level 2 inputs base fair value estimates on observable inputs that a market participant would use. Level 3 inputs have the lowest priority. This level requires the use of unobservable inputs. The Society uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Society measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. All of the Society's investments are classified as Level 1 inputs.

Investments recorded at fair value consisted of the following at June 30, 2014 and 2013:

	<u>Fair Value</u>	<u>Level 1 *</u>
<u>June 30, 2014</u>		
Equity securities	\$ <u>1,909,991</u>	\$ <u>1,909,991</u>
<u>June 30, 2013</u>		
Equity securities	\$ <u>1,671,573</u>	\$ <u>1,671,573</u>

* Quoted prices in active markets for identical assets

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - PROPERTY, PLANT & EQUIPMENT, NEI

	657 Castleton Ave. Staten Island, NY		669 Castleton Ave. Staten Island, NY		16 Osgood Ave. Staten Island, NY		444 St. Marks Place Staten Island, NY		Total
	2014	2013	2014	2013	2014	2013	2014	2013	
Land	\$ 164,670	\$ 164,670	\$ 150,000	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ 314,670
Buildings	885,837	885,837	2,012,659	2,012,659	-	-	-	-	2,898,496
Leasehold improvements	543,249	543,249	555,742	481,584	2,606,813	2,606,813	6,669,751	6,662,936	10,294,582
Furniture	102,884	102,884	145,089	145,089	-	-	56,419	56,419	304,392
Computers and equipment			249,469	249,469					249,469
	1,696,640	1,696,640	3,112,959	3,038,801	2,606,813	2,606,813	6,726,170	6,719,355	14,142,582
Less, accumulated depreciation	1,093,402	1,079,224	2,138,134	2,058,160	2,606,813	2,606,813	490,572	311,609	6,328,921
	\$ 603,238	\$ 617,416	\$ 974,825	\$ 980,641	\$ -	\$ -	\$ 6,235,598	\$ 6,407,746	\$ 7,813,661
									\$ 8,005,803

Depreciation and amortization expense totaled \$273,115 and \$470,535 for the years ended June 30, 2014 and 2013, respectively.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2014 and 2013, respectively:

	<u>2014</u>	<u>2013</u>
Accounts payable	\$ 790,351	\$ 340,413
Payroll and related expenses	560,554	738,051
Due to funding sources	749,023	817,069
Due to Medicaid	18,461	288,798
Accrued expenses	<u>8,708</u>	<u>12,684</u>
	<u>\$ 2,127,097</u>	<u>\$ 2,197,015</u>

NOTE 7 - ACCOUNTS PAYABLE OMH COPS/CSP

Accounts payable OMH COPS/CSP includes the following components as of June 30, 2014 and 2013, respectively:

	<u>2014</u>	<u>2013</u>
Due to OMH COPS	\$ 4,949,413	\$ 3,775,689
Due to OMH CSP	<u>1,262,769</u>	<u>1,262,769</u>
	<u>\$ 6,212,182</u>	<u>\$ 5,038,458</u>

The Level I Comprehensive Outpatient Services ("COPS") program was established during 1991 for Article 31 Clinics and Day Treatment programs. Upon inception of the program there were separate rates for each outpatient program for each provider. During 1993, the rates were combined into one rate for each provider. In 1995, additional COPS base supplement funds were added to the program and periodic cost of living adjustments have been made through the years. The COPS Medicaid rates were subject to a "cap" or maximum amount, which was adjusted periodically. The amount of COPS a provider could retain in any fiscal year was equal to that program's COPS threshold. All Clinic services rendered on or after July 1, 2008 were no longer subjected to the COPS reconciliation process. Providers were required to account for the COPS they received on a cash basis up to the threshold. Any COPS received in excess of the COPS threshold would be due back to the Office of Mental Health upon audit, and would be recouped through the State's payment system.

Similar to the Accounts Payable - OMH COPS, the Society has also received funding from the State's Community Support Program ("CSP"). These CSP payments also fund community-based mental health programs that serve the severely and persistently mentally ill population.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 - ACCOUNTS PAYABLE OMH COPS/CSP (Continued)

At the end of the prior year, the Society received a draft audit report from the State of New York Office of the Medicaid Inspector General ("OMIG"), indicating a review was performed for the three year period July 1, 2008 through June 30, 2010 covering both COPS and CSP funding, and indicated their findings as it relates to overpayments. Further action related to their findings has not yet taken place.

Subsequent to year end, OMH has begun recoupment at a rate of 15% of each weekly remittance related to the readjudication process for mental health clinic claims with dates of service from October 1, 2010 through December 31, 2011. Also subsequent to year end, a final audit report was received related to Level I COPS & CSP recoveries from July 1, 2005 through June 30, 2008 . As discussed further in Note 14, the Society has filed a hardship request with OMIG to reduce the withholding from future remittances from the standard fifteen (15%) to five percent (5%). The request was accepted as of November 2014 for a period of one year, at which time a new determination will be made.

NOTE 8 - NET ASSETS

Unrestricted Auxiliary

The Society receives funds from various volunteer groups organized to raise money on the Society's behalf, and to provide supplementary support for its various programs. The balances in these funds at June 30, 2014 and 2013, reflected as unrestricted auxiliary net assets, are as follows:

	<u>2014</u>	<u>2013</u>
Auxiliary of the Elizabeth W. Pouch Center for Special People	\$ 6,186	\$ 602
Head Start Children's and Parents' Funds	30,216	30,185
South Shore Clinic Committee and Thrift Shops	16,840	14,611
The Women's Guild	3,310	6,380
Total unrestricted auxiliary net assets	<u>\$ 56,552</u>	<u>\$ 51,778</u>

Temporarily restricted

Temporarily restricted net assets consist of the following:

	<u>2014</u>	<u>2013</u>
South Shore Building Capital Campaign	\$ 77,153	\$ 76,478
Pouch Building Campaign	57,519	56,620
Total temporarily restricted net assets	<u>\$ 134,672</u>	<u>\$ 133,098</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - NET ASSETS (Continued)

Temporarily restricted (continued)

No amounts were released during the year ended June 30, 2014 for either campaign. During the prior year, net assets were released from restriction for capital improvements in the Pouch building in the amount of \$9,056.

Permanently restricted

In accordance with the January 14, 1960 consolidation of Staten Island Mental Health Society, Inc. and Port Richmond Day Nursery and Central Relief Association, the sum of \$10,000 shall remain permanently restricted. All income generated by the restricted funds will be used towards the maintenance of the Port Richmond Day Nursery Early Learn Program.

NOTE 9 - LEASE COMMITMENTS

The Society is obligated to make minimum annual rental payments under operating leases, principally for office space, equipment, program facilities and vehicles. Lease commitments are as follows:

2015	\$	154,345
2016		133,259
2017		125,257
2018		120,000
2019		120,000
Thereafter		<u>1,860,000</u>
	\$	<u>2,512,861</u>

For the years ended June 30, 2014 and 2013, rent expense was \$482,448 and \$471,824 for facilities rental and \$35,012 and \$35,200 for equipment rental, respectively.

During the year, the Society entered into several sublease agreements with unrelated parties for office space at one of its locations. These sublease agreements run for various periods from December 2013 to January 2017. Rental income under these agreements is \$30,013 for the year ended June 30, 2014. The total future minimum rentals to be received under these agreements is \$140,933.

The Society currently rents three facilities from the Fund for the Advancement of Mental Health, Inc.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - GRANTS FROM GOVERNMENT AGENCIES

Included in "Grants from Government Agencies" is income from the New York State Department of Health - Division of Nutrition, Child and Adult Care Food Program ("CACFP"), funded by the United States Department of Agriculture ("USDA"), for the following programs:

	<u>2014</u>	<u>2013</u>
Head Start	\$ 317,107	\$ 280,359
Port Richmond Day Nursery	-	6,509
Other	-	1,401
	<u>\$ 317,107</u>	<u>\$ 288,269</u>

The agreement between the sponsoring agency (the "Society") and the New York State Department of Health, states the program is approved to operate through September 2014. As of June 30, 2014, the Society maintains \$34,220 of unspent funding related to the Port Richmond Day Nursery program. All other funds have been spent down.

Subsequent to year end, a new agreement with the New York State Department of Health has been approved extending the operating period through September 2015.

NOTE 11 - SANDY SERVICES PUBLIC SUPPORT

Hurricane Sandy Relief - (Sandy Services Programs)

The Society has continued to provide assistance to individuals and communities affected by Sandy by addressing both their tangible and emotional needs. As Project Hope ended in February of 2014, the Society was awarded three government grants to implement five programs to address the post traumatic stress disorder ("PTSD") and other emotional symptoms experienced after a disaster. These programs range from providing community based services as part of a Mobile Integrated Health Team ("MIHT") to school based services for children in a pre-school/daycare setting to public intermediate schools. Resiliency training was provided to teachers, care givers and parents affected by Sandy in a daycare and Department of Education setting.

In 2014, the Society was also awarded several private grants to provide services to individuals affected by Sandy. The Tiger Foundation provided supplemental funding for the Summer Therapeutic Program ("STP"). This six week camp provided the needed therapy to 100 children identified as having emotional distress resulting from the disaster, which included individual, group, and family therapy in addition to social and recreational programs.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - SANDY SERVICES PUBLIC SUPPORT (Continued)

Hurricane Sandy Relief - (Sandy Services Programs) (continued)

The Fund for Public Health in New York, Inc. provided funding for dedicated mental health treatment for students attending Intermediate School 2 (IS 2). The location of this school was in the area most devastated by Sandy and a number of children were identified as needing services resulting from the storm and the school directors recognized the need. The Staten Island Foundation joined with the Red Cross to provide services to teens and young adults faltering in direction as a result of the storm. These funds were used to implement the Safety Net program that would redirect personal, career and educational goals for individuals who's path was interrupted by Sandy.

Sandy Services Public Support consists of the following grants:

	<u>2014</u>
Grants from Government Agencies:	
Project Hope	\$ 785,020
Superstorm Sandy Social Services Block Grant	430,180
New York State Office of Children & Family Services- Daycare	800
Fund for Public Health in New York, Inc.- Mental Health Treatment Services	26,164
Fund for Public Health in New York, Inc.- Resiliency	40,000
	\$ <u>1,282,164</u>
Private Grants:	
Tiger Foundation	\$ 206,674
Tiger Foundation- Summer Therapeutic Program	4,869
Sandy Safety Net	88,372
	\$ <u>299,915</u>

Private Grants related to individuals effected by Sandy, recorded in the Children's Community Mental Health Center:

Staten Island Rotary	\$ 100,000
Children's Aid Society	20,000
New York State Health Foundation	37,500
	\$ <u>157,500</u>

NOTE 12 - IN-KIND INCOME AND EXPENSE

A facility for two of the programs of the Staten Island Children's Community Mental Health Center program resides in a facility with the New York City Board of Education. No amount has been reflected in the statements of activities for the equivalent of rent expense as the fair market value of the space has not been determined, in accordance with the Accounting Standards Codification.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - IN-KIND INCOME AND EXPENSE (Continued)

On July 27, 2013, a team of 300 volunteers from the Society, BNP Paribas (an International Investment Firm), organizer KaBoom!, and the community residents built a brand new, state-of-the-art playground at the main facility of the Society, for those children affected by Hurricane Sandy. The project included many donations by local businesses and individuals of the community. Total in-kind contributions amounted to \$108,222 including \$56,593 which has been recorded in property, plant and equipment. The remaining expense of \$51,629 is recorded as in-kind expense during the year.

Services performed by volunteer consultants and unsalaried teachers' aides are recorded as contributions and professional fees in amounts equal to salaries of personnel providing similar services. Fringe benefits are also included at the State approved percentage on professional services. Equipment and supplies are valued at the fair market value as of the date of the contribution.

	<u>2014</u>	<u>2013</u>
Head Start Early Learn in-kind contributions consisted of:		
Professional services	\$ 81,467	\$ 84,301
Fringe benefits	30,143	30,082
Consultants	3,000	-
Furniture and supplies	-	4,896
Transportation*	-	33,575
In-kind contributions meeting the criteria of the accounting standards codification	<u>\$ 114,610</u>	<u>\$ 152,854</u>

*During the current year transportation services were received; however, the value of these services was not provided by the donor.

	<u>2014</u>	<u>2013</u>
Other contributions provided through various Society programs:		
Professional services	433,376	438,700
Fringe benefits	<u>166,125</u>	<u>151,814</u>
Other in-kind contributions provided through various other Society programs**	<u>599,501</u>	<u>590,514</u>
Total in-kind contributions related to Head Start Early Learn Program	<u>\$ 714,111</u>	<u>\$ 743,368</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - IN-KIND INCOME AND EXPENSE (Continued)

**Other contributions made by the various programs of the Society to the Head Start Early Learn Program are shown separately above as these contributions meet the requirements for in-kind match for the Society's grant with the Administration for Children's Services (ACS). However, they do not meet the recognition criteria of accounting standards codification, and as such were not recorded in the accompanying financial statements.

The auxiliary and general funds record services performed by thrift shop volunteers and teachers' aides (reading volunteers) as contributions and professional fees in amounts equal to salaries of personnel providing similar services. The fair value of such donated time has been calculated using the most recent published rates for the Living Wage Rate, which was \$12.75 for both years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>Approx. Hours Donated</u>	<u>2013</u>	<u>Approx. Hours Donated</u>
Women's Guild	**	337	**	535
Pouch Auxiliary	**	126	**	359
South Shore Clinic Committee and Thrift Shops	\$ 72,586	5,693	\$ 76,717	6,017
Reading Volunteers	<u>26,000</u>	<u>2,065</u>	<u>34,000</u>	<u>2,768</u>
	<u>\$ 98,586</u>	<u>8,221</u>	<u>\$ 110,717</u>	<u>9,679</u>

**A substantial number of unpaid volunteers have made a significant contribution of their time, for the purpose of raising funds on behalf of the Society. The hours contributed include hours related to attending meetings, committees, organizing events, etc. The Board of Directors makes significant contributions of time relative to general management and operations of the Society.

No amounts have been reflected in these statements for such donated services as the type of service donated does not meet the criteria of the accounting standard for assessing a value of such services.

No value is ascribed to donated merchandise when received.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS

The Society's defined benefit plan (the "Plan") currently covers all nonunion employees other than those employed at the Head Start and Port Richmond Day Nursery programs, who are covered under other plans. Effective June 1, 1999, all employees covered by the National Health & Human Service Employees Union (Local 1199/SEIU) Collective Bargaining Agreement were no longer eligible under this employee benefit plan. As part of the agreement, the Society contributed the required 9.16% for the period July 2012 through November 2012, 11.50% for the period of December 2012 through December 2013 and 11.25% beginning in January 2014 until further notice, of union salaries to the Local 1199 Health Care Employees Pension Fund.

Prior to the Plan becoming frozen effective December 31, 2007, an employee was considered eligible after one year of service and attainment of age 21. Any prior employment in the health and welfare field within three years prior to employment with the Society was considered services for purposes of eligibility.

The Society's funding policy is designed to fund the Plan's normal costs, which are calculated as the percentage of annual payroll which will fund all plan benefits over the future service periods of all active plan participants. The Society's contributions of \$144,000 and \$447,000 for the plan years ending June 30, 2014 and 2013, respectively, complied with the minimum funding requirements of ERISA.

On July 6, 2012, P.L. 112-114, the Moving Ahead for Progress in the 21st Century Act (MAP-21), was signed into law. This Act provided much needed relief on pension plan funding and liabilities. The new MAP-21 law greatly reduced the minimum contribution for the fiscal year. The law is designed to result in continued increases in the required minimum contribution through the 2016 plan year as the applicable percentage of the 25 year average bond rates to value plan liabilities declines from 90% in 2012 to 70% in 2016.

The Plan paid benefits of \$996,291 and \$681,179 for the plan years ending June 30, 2014 and 2013, respectively.

All monthly contributions are deposited in Mutual of America's General Account. In accordance with the Plan investment policy, funds are transferred to various other funds at Mutual of America. In a prior year, the Plan was amended to allow investments to be transferred to the Fiduciary Trust Company. Approximately \$3 million was transferred to Fiduciary Trust Company to expand the investment vehicles available to the Plan. All remaining funds at Mutual of America are managed directly by Mutual of America.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Participants are entitled to annual pension benefits beginning at normal retirement age (65) equal to the sum of 2% of their final average earnings multiplied by the number of years of benefit accrual service. "Final average earnings" means the average monthly amount of compensation paid to an employee during the 60 consecutive months out of the last 120 months of employment that produces the highest average.

A participant with 25 years of service may retire early at age 62 with no reduction in accrued benefit.

Effective the close of business on December 31, 2007, the Plan was amended to state that final average earnings would not include any compensation earned after December 31, 2007. Benefit accrual service does not include any service after December 31, 2007 as the Plan is frozen.

Effective October 1, 2011, the Plan is subject to benefit restrictions under Section 206(g) of ERISA and Section 436(d)(3) of the Internal Revenue Code. These restrictions were added by the Pension Protection Act of 2006 and generally limit the amount of Plan assets that may be used to pay a lump sum or purchase an annuity to 50% of the value of the benefit otherwise payable to the participant.

The following table sets forth the fair value and changes in plan assets:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets at beginning of the year	\$ 11,141,597	\$ 10,200,593
Actual return on plan assets	2,306,732	1,196,693
Employer contributions	144,000	447,000
Benefits disbursed from plan assets (including expense charges)	<u>(1,055,270)</u>	<u>(702,689)</u>
Fair value of plan assets at the end of the year	<u>\$ 12,537,059</u>	<u>\$ 11,141,597</u>

As required by the Accounting Standards Codification, the employer is required to report in its statement of financial position the overfunded or underfunded status of a defined benefit post-retirement plan, which is measured as the difference between plan assets at fair value and the projected benefit obligation.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Plan assets are maintained in an investment contract with the pension plan carriers Mutual of America and Fiduciary Trust Company. The Society does not have access to plan assets except in the event of plan termination, which requires approval by the Pension Benefit Guaranty Corporation. The following table presents a reconciliation at June 30, 2014 and 2013 of the funded status and valuation of the Plan.

	<u>2014</u>		<u>2013</u>
Actuarial present value of:			
Vested benefit obligation	\$ (13,566,833)	\$	(13,489,261)
Accumulated benefit obligation	(13,568,159)		(13,492,493)
 Actuarial present value of:			
Projected benefit obligation	\$ (13,568,159)	\$	(13,492,493)
Fair value of assets	<u>12,537,060</u>		<u>11,141,597</u>
 Funded status	(1,031,099)		(2,350,896)
Unrecognized net (gain) or loss	1,915,615		3,250,507
Net effect of adoption of recognition provisions of ASC 715	<u>(1,915,615)</u>		<u>(3,250,507)</u>
 Liability for pension benefits	\$ <u>(1,031,099)</u>	\$	<u>(2,350,896)</u>

The following table sets forth the reconciliation of the liability for pension benefits:

	<u>2014</u>		<u>2013</u>
Cumulative contributions greater (less) than net periodic pension cost as of the beginning of the fiscal year	\$ 899,612	\$	707,322
Net periodic pension cost	159,096		254,711
Contribution paid during the year	<u>144,000</u>		<u>447,000</u>
Cumulative contributions greater (less) than net periodic pension cost as of the end of the fiscal year	884,516		899,611
Net effect of adoption of recognition provisions of ASC 715	<u>(1,915,615)</u>		<u>(3,250,507)</u>
 Liability for pension benefits	\$ <u>(1,031,099)</u>	\$	<u>(2,350,896)</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The following table sets forth the components of net periodic pension cost:

	<u>2014</u>	<u>2013</u>
Benefits earned during the year (service costs)	\$ 9,845	\$ 9,470
Interest cost on projected benefit obligation	526,667	492,187
Actual return on plan assets	(2,306,732)	(1,196,693)
Net amortization and deferrals:		
Amortization of unrecognized net (gain) or loss	418,714	492,395
Asset gain (loss) deferred	<u>1,510,602</u>	<u>457,352</u>
Net amortization and deferral	<u>1,929,316</u>	<u>949,747</u>
Net periodic pension cost	<u>\$ 159,096</u>	<u>\$ 254,711</u>

Weighted-average assumptions as of June 30:

	<u>2014</u>	<u>2013</u>
Assumed discount rate	4.00%	3.90%
Post-retirement interest rate	6.00%	6.25%
Expected long-term rate of return on plan assets	7.50%	7.75%

The following table sets forth the changes in projected benefit obligation:

	<u>2014</u>	<u>2013</u>
Projected benefit obligation at the beginning of the year	\$ 13,492,493	\$ 12,916,144
Service cost	9,845	9,470
Interest cost	526,667	492,187
Change due to assumption changes	241,175	245,789
Actuarial (gain) loss	353,249	531,592
Expense charges	(58,979)	(20,975)
Benefits disbursed	<u>(996,291)</u>	<u>(681,714)</u>
Projected benefit obligation at the end of the year	<u>\$ 13,568,159</u>	<u>\$ 13,492,493</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Expected future benefit payments

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

<u>Fiscal Year End</u>	<u>Expected Benefit Payments</u>
2015	\$ 1,382,000
2016	847,000
2017	1,452,000
2018	1,031,000
2019	1,020,000
2020-2024	4,799,000

Plan assets by category

	<u>2014</u>		<u>2013</u>	
* Equity	\$ 9,150,970	73.0%	\$ 7,770,649	69.7%
** Fixed income	1,818,767	14.5%	1,728,394	15.5%
*** Fixed income - General account	<u>1,567,323</u>	12.5%	<u>1,642,645</u>	14.7%
Total	\$ <u>12,537,060</u>	100.0%	\$ <u>11,141,688</u>	100.0%

Fair value hierarchy

The level of fair value hierarchy of the above plan asset categories are as follows: * = Level 1, ** = Level 2, *** = Level 3. These levels have been previously defined in Note 4, Investments and Fair Value Measurement.

Expected Long-Term Rate of Return on Plan Assets Assumption:

The Expected Long-Term Rate of Return on Plan Assets Assumption of 7.50% and 7.75% for the years ended June 30, 2014 and 2013, respectively, was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations". Based on Staten Island Mental Health Society, Inc.'s investment allocation for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 7.17% - 9.80% for the year ended June 30, 2014 and 6.93% - 9.48% for the year ended June 30, 2013. A rate of 7.50% and 7.75% for the years ended June 30, 2014 and 2013, respectively, which is within the best estimate range, was selected.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Future Contributions

For fiscal 2015, the Society expects to make a contribution in the amount of approximately \$300,000, representing the minimum funding requirement to the Plan. Subsequent to year end, payments totaling \$72,000 were made and the remainder of the required minimum funding will be made utilizing available credit balances within the Plan. Thus no further cash contribution will be needed.

Reconciliation of Items Not Yet Reflected in Net Periodic Benefit Cost

	<u>July 1, 2013</u>	<u>Reclassification as Net Periodic Benefit Cost</u>	<u>Amounts Arising During Period</u>	<u>June 30, 2014</u>
Transition Obligation or Asset	\$ -	\$ -	\$ -	\$ -
Net Prior Service Cost or Credit	-	-	-	-
Net (gain) or loss	3,250,507	(418,714)	(916,178)	1,915,615

Estimated Effect in Next Fiscal Year - Items Not Yet Reflected in Net Periodic Benefit Cost

	<u>July 1, 2014</u>	<u>Estimated Amounts to be Reclassified as Net Periodic Benefit Cost</u>
Transition Obligation or Asset	\$ -	\$ -
Net Prior Service Cost or Credit	-	-
Net (gain) or loss	1,915,615	(129,953)

No plan assets are expected to be returned to the employer during the June 30, 2015 fiscal year.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13- EMPLOYEE BENEFIT PLANS (Continued)

Investment policies and strategies

Investment goals are to maximize the portfolio performance while keeping risk at a minimum. The investment options offered by Mutual of America and Fiduciary Trust are the vehicles that are permitted within the pension portfolio. The Finance Committee of the Board of Directors meets monthly to review the investment portfolio of the Plan. Periodically, Mutual of America and Fiduciary Trust present an analysis of the portfolio and provide recommendations for future investments, which are reviewed by the Finance Committee.

Assumptions

The significant assumptions used to determine the benefit obligation and the assumptions used to determine net benefit costs are as follows:

Retirement Age	For both 2014 and 2013, age 65; for employees over age 65, immediate retirement is assumed.										
Mortality Rates	For 2014, the 2014 Unisex Mortality Table specified in IRS Notice 2013-49. For 2013, the 2013 Unisex Mortality Table specified in IRS Notice 2008-85.										
Employee Withdrawal Rates	For both 2014 and 2013, T-11 Rates of Withdrawal from the Pension Actuary's Handbook.										
	<table><thead><tr><th></th><th>% Withdrawing in Year</th></tr><tr><th><u>Age</u></th><th><u>2014 & 2013</u></th></tr></thead><tbody><tr><td>25</td><td>24.9242</td></tr><tr><td>40</td><td>17.6871</td></tr><tr><td>55</td><td>4.9572</td></tr></tbody></table>		% Withdrawing in Year	<u>Age</u>	<u>2014 & 2013</u>	25	24.9242	40	17.6871	55	4.9572
	% Withdrawing in Year										
<u>Age</u>	<u>2014 & 2013</u>										
25	24.9242										
40	17.6871										
55	4.9572										
Maximum Benefit Increase	3.75% per year for both 2014 and 2013.										
Maximum Includable Compensation Increase	3.75% per year for both 2014 and 2013.										
Post-retirement Interest Rate	6.00% per year for both 2014 and 2013.										

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13- EMPLOYEE BENEFIT PLANS (Continued)

Assumptions (continued)

The portion of unrecognized net (gain) or loss that exceeds 10% of the greater of projected benefit obligation or the market-related value of plan assets, the transition asset, and the prior service cost are each amortized over the average remaining service period of active employees as of the date of establishment of the transition asset or prior service cost or, in the case of unrecognized net (gain) or loss, as of the beginning of the fiscal year.

403 (B) Thrift Plan

On January 1, 2008, management implemented a 403(B) Thrift Plan for all employees. Employees can defer up to the federal limits and management contributes 2% of the employees' base compensation for those employees not covered by a collective bargaining agreement and employed on the last day of the fiscal year.

Effective July 1, 2013, the employer contribution was changed to a discretionary contribution.

Employer contributions to the plan amounted to approximately \$0 and \$67,000 for the years ended June 30, 2014 and 2013, respectively.

NOTE 14 - COMMITMENTS & CONTINGENCIES

Commitments

Line of Credit

During the prior year, the Society had an unsecured line of credit in the amount of \$1 million at a local financial institution, which expired on March 20, 2013. The line was not renewed and no money was owed on the line.

On November 13, 2013, the Society entered into a line of credit with Fiduciary Trust Company in the amount of \$600,000 at a rate of Prime. The Society's investments held at Fiduciary Trust Company will serve as collateral for the line. No amounts have been borrowed on the line as of the date of the issuance of these financial statements. Subsequent to year end, the full amount was drawn down to cover operating expenses.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

Guarantee of Loan

The Society has provided a guarantee on a \$2 million loan. The loan has been made to the landlord of property that the Society leases for several of its programs. The loan is in the form of a mortgage in the amount of \$1.5 million and a \$500,000 installment loan both of which have outstanding principal balances of \$1,431,165 and \$476,618, respectively at June 30, 2014 and are collateralized by first mortgages on properties at 657 & 669 Castleton Avenue, Staten Island, New York.

\$1.5 million Mortgage

The mortgage commenced on June 3, 2010, and interest is computed at a rate of 7.25% per annum. The loan is to be repaid by interest only payments for the first 24 months, followed by 240 interest and principal payments of \$11,855.64 per month applied first to interest and then to a reduction of principal. The remaining unpaid balance is due and payable in full on June 3, 2032.

\$500,000 Installment Loan

This installment loan was previously a revolving note which was converted on July 3, 2012. Payment shall be made for 240 months with interest at the rate of 7.25% per annum, and monthly thereafter, in payments of \$3,951.88 or such lesser monthly payment amount as will liquidate the then balance over a term of 20 years, to be applied first to interest and then to a reduction of principal. The remaining unpaid balance is due and payable in full on June 3, 2032.

Financial, Compliance and Third-Party Audits

The Society participates in several government assisted program grants, which represent approximately 45% and 37% of total public support and revenue, for the years ended June 30, 2014 and 2013, respectively. These program grants are subject to financial and compliance audits by the grantors or their representatives. Grantors reserve the right to reclaim certain funds as a result of these audits. The Society is liable for any disallowed costs.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

Some of these grant contract terms are three years, but are renewed annually depending on the availability of funds and the Society's compliance with the requirements of the contracts and grants. Therefore, continued funding is contingent on availability of funding from the various funding sources.

During the prior year, the Society entered into an agreement with the New York City Department of Education related to the Society's Integrated program. The installment agreement relates to fiscal year 2009 and 2010 retroactive tuition rate adjustments totaling \$185,831. The agreement called for 24 monthly installments in the amount of \$7,742.96 beginning in September 2012. At June 30, 2013, the Society had recorded a liability due back to the funding source in the amount of \$110,337, which was recorded in accounts payable due to funding source. The balance remaining on the agreement at June 30, 2014 is \$25,165.

The Society also receives a substantial amount of its revenue from services provided to approved participants under third-party reimbursement arrangements with providers such as Medicaid. These revenues are also subject to audit and retroactive adjustment by the third-party fiscal intermediaries.

Contingencies

Going Concern

As shown in the accompanying financial statements, the Society has been experiencing losses from operating activities primarily in our Mental Health Clinics. Prior to the implementation of the Part 599 regulations from the Office of Mental Health (OMH), the Society received among the highest rate paid to providers for Comprehensive Outpatient Program Services (COPS) as supplemental fees to the set Medicaid payments. COPS payments were a methodology developed by OMH to use Medicaid funding in lieu of deficit funding. (It is important to note that the Federal Center for Medicaid Services has since determined that this methodology is unacceptable). With COPS funding, the Society was able to maintain a strong clinical staff who, as members the SEIU 1199, are paid the highest salaries in the industry, along with contractual and mandated benefits equivalent to approximately 52% of wages.

OMH instituted annual thresholds for the amount of COPS funding providers were entitled to record as revenue. The Society had recorded these overpayments in their financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

In 2010, OMH announced the Medicaid Redesign that called for the elimination of COPS reimbursements as well as created a tier structure for the payments of Medicaid services provided called Associated Patient Groups ("APG's"). The introduction of this new payment methodology was done in phases over a three year period from 2010 through 2014. Simultaneously, COPS payments were reduced by 25% annually until they were entirely eliminated. The effect of this redesign had a dramatic impact only in our Mental Health Clinics, which is our largest service line. During this "phase in" period, the Society experienced losses from operating activities. The revenues received in excess of threshold limits were needed to support these operating deficits.

In the last two years, under new leadership, the Society implemented several cost reduction plans and productivity goals in an attempt to offset the revenue cuts. The implementation of these plans resulted in major increases in productivity and a cost saving of over \$3.5 million in staff reductions.

Even with these changes, the Society was supporting an ongoing structural deficit. In early 2014, the Society was awarded a technical assistance grant from the NonProfit Finance Fund. Their review confirmed the Society's assessment that the Mental Health Clinics can not operate with a balanced budget given the current reimbursement rates and our cost structure which includes our high salaries and fringe benefit rates for our union membership.

During the "phase in" process, the Office of Mental Health had also advised the Society of the COPS funds paid in excess of threshold from 2005 through 2010. As stated above, although the funds were recorded in the Society's financials statements, the actual funds were needed to support the Society's deficits. As a result, the Society requested and applied for a hardship agreement. The Office of Medicaid Inspector General (OMIG) granted a recovery rate of 5% over a one year period, at which time a new determination of repayment terms will be made based upon updated financial information.

Details of our financial position has been shared with all state and city funding sources, as well as, all elected officials on Staten Island. As a result of these issues, Management, with the support of the Board, has been looking for a viable strategic partnership. The process is active and on-going. Subsequent to year end, the Society received notification that it has been designated as a Vital Access Provider ("VAP") by OMH, which will help stabilize the Society and maintain mental health clinic services through a merger, acquisition, or consolidation. This program was introduced by OMH to assist Mental Health Clinics currently in financial distress.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

These conditions create an uncertainty about the Society's ability to continue as a going concern. The ability of the Society to continue as a going concern and meet its obligations as they become due will be dependent on a strategic plan to increase revenues, which management believes is probable with the support and guidance of OMH and VAP funding. The financial statements do not include any adjustments that might be necessary if the Society is unable to continue as a going concern.

NOTE 15 - CONCENTRATIONS

Employees Covered By Collective Bargaining Agreements

Approximately 93% of the Head Start program employees are covered by a collective bargaining agreement. Of the remaining programs at the Society, approximately 46% of employees are covered by a collective bargaining agreement.

Revenue

The Society earns its "Grants from government agencies" from several funding sources, the largest of which are as follows:

	<u>2014</u>	<u>2013</u>
New York City - Administration for Children's Services	60%	60%
New York City - Department of Health and Mental Hygiene	23%	27%

Program service fees consist of the following concentrations:

	<u>2014</u>	<u>2013</u>
Medicaid	61%	51%
COPS	30%	41%

Effective October 1, 2013, COPS funding was discontinued. The APG methodology discussed in Note 16 replaces the COPS revenue.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. During the current year, as a result of the Society's restructuring, management has reviewed and revised the cost allocation methodology used among the various programs benefited. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 17 - RELATED PARTIES

A former member of the Board of Directors is the Chairman at the bank where the Society maintains the majority of its bank accounts.

A current member of the Board of Directors is also a board member of the Staten Island Rotary which provided the Society with a grant in the amount of \$100,000 to be used to provide services to children traumatized by Hurricane Sandy. This grant was utilized in the Children's Community Mental Health Center.

Subsequent to year end, a member of the Board of Directors provided services for repaving the parking lot to the Society for approximately \$79,000.

As previously noted, the Fund for the Advancement of Mental Health, Inc. (the "Fund"), a 501(c)(3) non-profit organization, provides facilities through lease agreements for several programs of the Society. The Fund is also the landlord for the Society's new "Green Building" located on St. Mark's Place in Staten Island. As discussed in Note 15, the Society has provided a guarantee and collateral to the bank on outstanding loans that are maintained by the Fund.

During the prior year, the Fund forgave repayment of the \$290,000. This forgiveness had been recorded in the statement of activities as a contribution.

The Fund also leases a vehicle to the Society on a month-to-month basis.

Subsequent to year end, the Fund loaned the Society \$500,000 to be used toward operating expenses. The terms of the loan are currently being negotiated.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 - AFFILIATION AGREEMENT

The Society enters annually into an agreement with the Richmond University Medical Center ("RUMC") whereby RUMC sends postgraduate trainees ("Pediatric Medical Residents") to the Society's Elizabeth W. Pouch Center For Special People for training purposes.

The Pouch Center participates in training in the diagnosis, evaluation and management of developmental disorders to pediatric residents. The pediatric residents will provide no direct independent service to the patients, family members or other program participants of the Pouch Center. The agreement calls for a fee of \$20,000 for both years ended June 30, 2014 and 2013 to be paid to the Pouch Center. This amount has been reflected in the statement of activities under the category of program service fees.

NOTE 19 - SUBSEQUENT EVENTS

The Society has evaluated events and transactions for potential recognition or disclosure through February 19, 2015, which is the date the financial statements were available to be issued. Other than as previously noted, no significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.